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THE NEWSPAPER OF DISCOUNT RETAILING

SECOND CLASS

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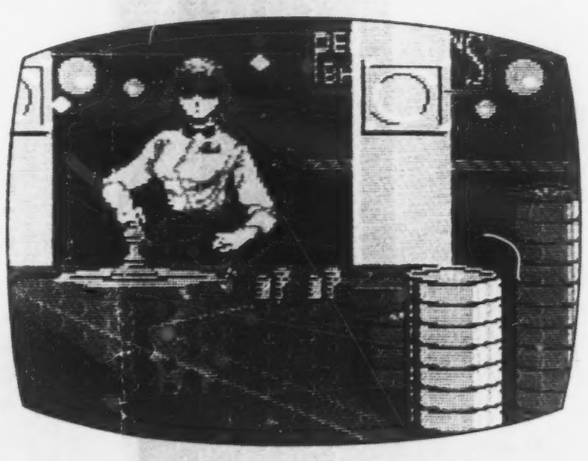

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Pace Acquires Price Savers In Clubs' Ongoing Contraction

By Arthur Markowitz

AURORA, Colo. — The wholesale club industry's contraction into four major players continues apace as Pace Membership Warehouse acquired Price Savers for an undisclosed amount of cash.

The move consolidated Pace's position as the industry's fourth largest chain—Price Savers was No. 6—and came amidst widespread speculation that the Warehouse Club and BJ's Wholesale Club, the last remaining major players, would be acquired during the year.

On an annualized basis, the 17 Price Savers are expected to add about $850 million in sales to the 61-unit Pace's estimated $2.5 billion volume.

A deal between the Warehouse Club and A&P whereby the food retailer would obtain a 50.8% controlling interest in the membership warehouse was called off shortly after Pace acquired Price Savers.

Warehouse Club president and chief operating office Sherwin Deutchman said both companies agreed that completing the deal—which called for A&P to buy 7.3 million newly issued Warehouse Club stock for $10.95 million—"didn't benefit either party at this time." Deutchman said the "company is committed to doing what is in the best interest of shareholders and employees."

(Continued on page 134)

Office Depot To Buy 23-Unit Office Club

By Laura Liebeck

BOCA RATON, Fla. — The consolidation of the office supply superstore industry continued last month as the industry's largest chain, Office Depot, said it would merge with Office Club, Concord, Calif., in a deal estimated to be worth $140 million.

The 122-unit Office Depot, with 1990 sales expected to total $600 million, will widen its lead over its competitors by a wide margin with its acquisition of 51-unit Office Club.

The merger, which will place Office Club as a wholly owned subsidiary of Office Depot, will be completed this spring, said David Fuente, Office Depot's chairman, president and chief executive officer, who relinquishes his presidency in the merged company.

Mark Begelman, chairman and ceo of Office Club, becomes president and chief operating officer of the merged company.

Other management changes have not yet been announced but Fuente expects additional Office Club personnel to move over to Office Depot.

Office Club will continue operating under its own name in most markets without material changes. However, in markets where the two chains overlap, Dallas, for example, Office Club outlets probably will become Office Depots.

Office Depot talked with Office Club about the possible merger for "quite a while," said Fuente, noting that the talks got serious only a few

(Continued on page 133)

***Pic 'N' Save's Williams:** 'I want stores brimming with dramatic presentations of inexpensive goods. Mass presentation is the key.'*

Pic 'N' Save Head Sees Promise in Retail Turmoil

By Richard Halverson

NEW YORK — Len Williams, the new president and chief executive of Pic 'N' Save (PNS), got an early Christmas present.

In a vote of confidence in mid-December, the Southeast Asset Management Fund bought 585,000 more shares in the closeout chain, raising its stake to 5.7 million, or 18.6% of shares outstanding.

That vote came a month after Williams, a 30-year veteran of retailing, took the reins of PNS—which suffered from a bruising takeover attempt last summer—from Lewis B. Merrifield III, a corporate lawyer.

And that vote came just six weeks after PNS, based in Dominguez, Calif., reported a net loss of $974,000 for the first nine months of 1990, compared with net earnings of $30.9 million in the same three quarters of 1989.

Much of the loss stemmed from the $19 million costs of fending off that hostile takeover bid and a restructuring

(Continued on page 133)

MARKETWATCH

Sky City Sale Falls Flat

ASHEVILLE, N.C. — The sale of Sky City Stores to a holding group headed by current management fell through late last month, even though the company prematurely issued a press release stating that the acquisition had occurred. At presstime, it is not clear whether the extensive restructuring plans outlined in the release—which called for the closing of 20 of the chain's 55 Southeastern stores—would be undertaken. Originally, the $140 million Sky City Stores was to be bought from financially troubled furniture and footwear manufacturer, Interco, by Sky City Holdings Corp. The infusion of capital from Hong Kong-based Asia Pacific Industries and other members of the holding company was to allow for five new store openings in 1991, as well as the development of new facilities.

Jewelcor Fails to Sell Publishing Arm

WILKES-BARRE, Pa. — Jewelcor's plan to sell its Suburban Publishing subsidiary as part of its Chapter 11 reorganization fell through when Alden Press, Elk Grove Village, Ill., called off its proposed acquisition of the printing company on the day the deal was to close. Jewelcor will continue to operate Suburban Publishing while it looks for another buyer as part of its agreement with major creditors to either sell its businesses—which also include the Jewelcor Merchandising group and Gruen Watch operation—or else find third-party financing for them.

Waban Converts Ohio BJ's to HomeClub

TOLEDO, Ohio — Waban expected to spend $1.2 million to $1.5 million to convert its now closed BJ's Wholesale Club here into a HomeClub warehouse home center. The unit, the first HomeClub in the Midwest, is due to open in the spring. The Toledo BJ's, shuttered Dec. 24, 1990, was one of the chain's poorer performing units and the only one in Ohio. The 28-unit BJ's now has just four Midwest stores, all in the Chicago market, but it faces explosive competition there from 10 Sam's Club stores, with more Sam's on the way.

Woolworth Re-Opens East German Store

HALLE, Germany — As another indication of the growing importance of the European market to American retailers, Woolworth Corp. recently re-opened what had been its first store in Eastern Germany prior to World War II. The store, which originally opened in 1933, is the first of a projected 30 to 40 stores planned for the market.

Major Creditors Support Child World

Seven leading toy manufacturers have banded together to support Child World, the troubled toy chain which recently announced the suspension of loan and inventory payments. The seven (Hasbro, Ben Cooper, Fisher-Price, LEGO, Mattel, Tonka and Tyco) have sent a letter to other unsecured creditors urging them to refrain from suing Child World or taking other legal actions that may push the retailer into Chapter 11 while a reorganization plan is developed. The letter, signed by "the Unofficial Committee of Unsecured Creditors of Child World, Inc.," states that Child World has made significant disclosures and has developed the outline of a promising global restructuring plan. "The Committe membership has unanimously indicated its support for the program, conditioned upon the continued compliance by Child World ..." the letter read, in part.

Kmart to Co-Sponsor U.S. Bicycle Classic

NEW YORK — Kmart will be one of two inaugural sponsors of the U.S. Bicycle Classic, an amateur event aimed at preparing racers for the Olympic Games. Scheduled for June 18 to 23, throughout the state of West Virginia, the U.S. Bicycle Classic will incorporate five road races, two time trials and one circuit race for a total of 519 miles. The five-day, point-to-point race will begin in Wheeling and finish in Charleston. According to Bill Parker, Kmart's vice president for marketing, sales and advertising, Kmart's 15 stores in West Virginia would get involved in the event, which will be featured in advertising and marketing efforts.

FOR THE RECORD

Grandpa Pidgeon's, the Bridgeton, Mo.-based discounter, operates nine stores, not 11 as stated in *DSN*'s Oct. 15 issue.

Best Grapples With Creditors

RICHMOND, Va. — Best Products has "temporarily" halted payment to its vendors while it attempts to restructure the approximately $665 million debt that resulted from Adler & Shaykin's 1988 leveraged buyout of the cataloger.

The $2 billion retailer hopes to "shortly" reach some agreement with its main creditors, which include the Manufacturer Hanover Trust Co. of New York and the Rockefeller Group. While Best reported it had funds to purchase goods during January for its immediate needs, trade sources said the cataloger was under pressure from suppliers to resolve its financial problems prior to the housewares and consumer electronics shows this month so they can resume shipping merchandise.

In a pre-Christmas letter to vendors, Best president Stewart M. Kasen said, "In the interest of all parties and to make sure that all vendors are treated equitably, we have temporarily suspended all payments pending the conclusion of our discussions [with financial lenders] and the development of the financial plan."

A spokesman noted that Best had decided last August that it would pass up terms that involved anticipation because "we felt it was more important to conserve cash and maximize cash flow than get the discounts from anticipation payments."

The move "stirred concern among some vendors" and a few suppliers, particularly in the consumer electronics areas, "disliked the decision enough to stop shipping," he said. "It became a self-fulfilling prophecy as the lack of goods resulted in reduced sales."

Best had put a number of programs in place, including: increasing its catalog's size 21.7% to 404-pages, increasing the mailing 34.6% to 7 million potential customers, and focusing its merchandising on three core categories—jewelry/giftware, housewares/home furnishings and home products (CE, photo and luggage). The programs had produced "some positive results," he added.

Hersh Out At IMRA

WASHINGTON — Richard Hersh has been fired as president of the International Mass Retail Association, the trade association for the discount store industry.

"The only statement we're making is that his employment was terminated," said William Atkinson, chairman of the board of the IMRA.

Hersh's termination was effective Dec. 21, 1990.

Atkinson, former president of the Towers Department Store chain in Canada until its acquisition by Zeller's last year, also confirmed that IMRA director of conferences Samantha McCabe left the association before Christmas.

(Continued on page 134)

Harts Eyes Hypermarkets

By Mary Ellen Kelly

COLUMBUS, Ohio — Harts has taken the first steps toward becoming the first chain of regional hypermarkets.

The restructuring that took place at Harts' parent—Big Bear Stores Co.—during the fourth quarter of 1990 may signal a new emphasis on the Big Bear Plus hypermarket format and the eventual dissolution of the Harts discount store division.

The reins for Harts were handed over to what had been the grocery store side of the operation, and the top Harts post is now "non-foods director."

The company will not say that the entire Harts chain will be converted into its three-year-old Big Bear Plus food/general merchandise format, but money speaks louder than words. Big Bear Corp. recently reported its four-year $112.5 million capital spending plans, and the proposed spending suggests that the entire Harts chain could ultimately be transformed to hypermarkets.

(Continued on page 133)

Harold's Plans to Rebuild

BRAMPTON, Ontario — Kmart Canada Ltd., based here, sold its 155-unit Bargain Harold's dollar store chain to an investor group which includes one-time Canadian Tire president, Dean Muncaster and former Canadian Tire executive vice president Barry Setnor. While Kmart was not looking to sell the chain, the undisclosed purchase price evidently swayed management to sell the recently unprofitable chain.

The $300 million Bargain Harold's operation has operated at a loss for the past few years but new management believes changes in Canada's economic climate coupled with improvements in store format, information systems and distribution will return Bargain Harold's to profitability. Bargain Harold's future could be aided by the simple fact that it is new management's sole focus, instead of the secondary business it was for Kmart.

Dean Muncaster, who is now chairman of Bargain Harolds told *DSN* he pursued the chain because he saw it as a good opportunity. "Consumer trends are changing. The emphasis is on value. The days of free and easy spending are be-

(Continued on page 133)

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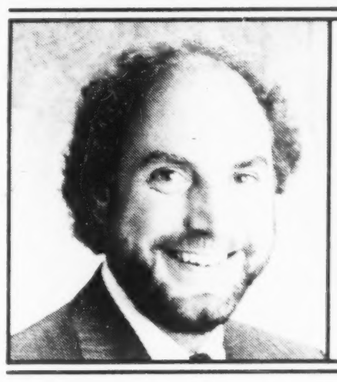
EDITORIAL

Stuarts Falls Victim to the Times

The ice and snow surrounded the new office building and distribution center which Stuarts Department Stores had just moved into about a year ago in Franklin, Mass. It was a typically cold, windy and dreary winter day, but once you entered the lobby of this new, but modest, headquarters, the warmth and excitement reflected the renewed spirit of this regional discounter entering the '90s with a new president and a new strategy.

Joe Ettore had left a top merchandising post at Jamesway to head up this 23-unit chain that had been struggling and fighting to survive in some tough New England markets. The turnaround task wasn't an easy one, Ettore knew that. He had accepted this challenge and he was determined to make it happen. He wasted little time. He made sweeping changes in every aspect of the business—marketing, merchandising, operations, store design, etc. He was on a roll. His staff believed in him, the vendors supported him and the customers were beginning to notice the changes. Believe it or not, the future looked bright for this struggling regional discounter.



TONY LISANTI
Editor

Then surprisingly on Dec. 7, 1990, Stuarts filed Chapter 11. It was a matter of circumstance rather than a failure to execute Ettore's plans. Needless to say, Ettore was frustrated and disappointed, but he remains confident that Stuarts can survive.

In fact, I remember Ettore chiding me over the last paragraph of a story I wrote discussing the changes being implemented at Stuarts. In the February 26, 1990, issue of *DSN*, I wrote, "But, as he [Ettore] admitted, the measure of success will be profitability. And only time will tell if the new Stuarts will become 'New England's Way to Save,' or another regional chain that couldn't survive." He jokingly wanted to know how could I even say this? But he knew it was true. He knew the harsh reality that faced him.

What happened to Stuarts is an unfortunate, but typical example of the problems plaguing many discounters today. The sagging economy, the recession, the competition, the debt and lack of financing—and not necessarily poor merchandising, poor management and poor systems—are seriously hurting retailers nationwide.

Stuarts had a sound plan and strong management. But it couldn't escape the wrath of its primary lender. Ettore made some last minute presentations to convince the bank to continue to support Stuarts. He proposed to close several stores but to no avail. He tried to secure alternative financing, but couldn't. He desperately tried to save Stuarts. The bottom line was the bank wanted out of the loan. Stuarts had no choice but to file for bankruptcy.

This is a tale of the times. This is a story that will be probably be told again this year because there are many retailers in the same predicament. Macy's, Hills, Best Products and Child World are only a few examples of retailers that are struggling more for reasons attributed to high debt or the competition, rather than the ability to execute their respective concepts well. No one person can be blamed; no one reason can be cited unequivocally.

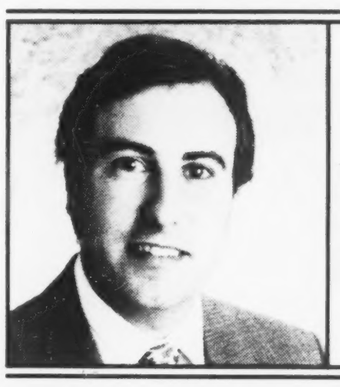
I wrote last year that 1990 would be a turbulent year—and it was. It looks like 1991 will be a carbon copy.

BUYERS & SELLERS

Recession Will Test Commitment to Change

On the whole, 1990 was a year in which the vendor/retailer relationship took great steps toward becoming more of a true business partnership. More retailers than ever before have made a commitment to working with their resources in order to develop product lines that stand for something unique in their customers' minds. They're more willing to share sales trend information, giving their suppliers the data they need to do an even better job of servicing the retailer's stores with on-trend merchandise at the right time to maximize sales.

Now, as the nation muddles through its first economic recession in over a decade, that relationship will come under new strains. At all costs, retailers must avoid the temptation to revert to a 'beat 'em up' mentality in dealing with their suppliers. And, vendors must be willing to listen more closely and react more quickly to retailers' needs. For example, now that retailers have the systems in place to project sales as much as eight months in advance, there's no reason why suppliers should be unable to anticipate and meet the retailers' merchandise needs.



DON LONGO
Exec Editor

A whole new set of rules regarding product development will apply in the future. In the high-flying '80s, manufacturers came out with what seemed like a never-ending stream of yuppie toys, high-tech versions of basic products, and short-term fashion statements for a consumer without any appreciation of financial limits. The '91 consumer, hungover from the aftereffect of his status-conscious consumption, is sobering up and sports a new back-to-basics mindset.

This month's Consumer Electronics Show in Las Vegas and the Housewares Show in Chicago will be a good barometer of how clearly manufacturers have grasped the new situation. In fact, the first three months of '91, as usual, are loaded with industry conventions. Next month, there's the Toy Fair, Back-to-School Show, Super (sporting goods) Show and Photo Show; and in March, there's the MAGIC (men's wear) show.

At CES, manufacturers must resist the temptation to assume that what worked in the past will work in the future. Retailers must avoid concentrating their efforts solely on discovering the "next VCR." Expect to find a host of peripheral items that can be sold without sacrificing margin.

The recession could actually benefit housewares sales. At-home entertaining and cooking will become more popular and products that enhance the home lifestyle offer sales opportunities.

The slumping economy is affecting other product categories as well. Dollars that formerly have been going for $50 video games could revive some basic toy categories in 1991. The Back-to-School Show, with its expanding focus on the home office, promises to spotlight some interesting new products. Exhibitors at the Super, Photo and MAGIC shows will be similarly challenged to meet new consumer demands.

But, these changes can't be made in a vacuum. It will take close communication between retailers and manufacturers, and even among the manufacturer's resources to develop successful new product merchandising programs for the '90s.

READERS' REPLY

Dear Editor:

I was very pleased with *Discount Store News*' full study issue of Kmart (Dec. 17, 1990). It was especially gratifying to see stories about all the good things happening at Kmart.

Thank you for all your efforts and please pass on my thanks to Don, Pete, Art, Laura, Mary Ellen, Jill and Richard for their fine reporting. I look forward to future stories with *DSN*.

Joseph E. Antonini
chairman and chief executive officer
Kmart Corp., Troy, Mich.

Editor's note: **The exclusive report, entitled, "Kmart's Fresh New Face," was written by *Discount Store News* editor Tony Lisanti, executive editor Don Longo, senior editors Arthur Markowitz, Pete Hisey and Laura Liebeck, and associate editors Mary Ellen Kelly, Richard Halverson and Jill Lettich. Anyone wishing to obtain additional copies of the special issue may do so by writing to Tony Lisanti, Editor, *Discount Store News*, 425 Park Ave., New York, N.Y. 10022. Please include $25 in check or money order payable to *Discount Store News* for each issue ordered.**

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Electric Grills Smoking Hot With Small Appliance Buyers

Nationwide DSN Report

A classic outdoor cooking method has been transformed into a fast growing indoor small appliance that's become the key item in a new classification: tabletop electric cookware.

The small appliance is a tabletop electric grill, which took off in mail order catalogs and conventional department stores in the mid-'80s and gradually became a strong selling basic traffic appliance in discount stores and catalog showrooms during the past two years.

Tabletop electric grills became one of the top selling traffic appliances this past Christmas, with the dominant version the ceramic models that remain cool to the touch and give off little, if any, smoke while they grill.

The growing acceptance of the safety and convenience of tabletop ceramic grills has resulted in a number of manufacturers planning to introduce other ceramic kitchen electrics like toaster/ovens, steamers and chafing dishes at the National Housewares Manufacturers Association's annual January Housewares Show.

The tip-off on indoor grills' transformation into a mass market small electric is evident from how catalog showrooms treat the item. Grills weren't part of the traffic appliance mix in catalogers' 1989-1990 books. But among the 1990-1991 catalogs, Best Products and Consumers Distributing are both merchandising two sku's, the former Maverick products and the latter Dazey items, while Luria's shows four models, one each from Dazey, Hamilton Beach, Maverick and Rival.

These same brands, along with Contempra and direct imports, are found in discount stores and membership warehouses. The number of sku's and the mix of names and price points enable the chains to sidestep direct item comparisons.

Wal-Mart features Contempra and Rival goods within planogrammed kitchen electric gondola displays, while Kmart, after testing electric grills, is developing a program using Contempra items. Among the branded lines in wholesale clubs: Wal-Mart's Sam's Club goes with Dazey; Maverick and Contempra are key suppliers to Price Club; while Costco and Kmart's Pace use Contempra.

Manufacturer margins for indoor electric grills are under 30%, in line with other small appliances. Retailers' markups range from 10% for goods on promotion to 20% to 30% for non-ad merchandising, depending on the item's price point. The key selling range is $20 to $30 for the basic 90-inch and 120-inch diameter oval grills, with larger units like rectangular 154-square-inch and 180-square-inch models going to $70.

Retailers are turning to electric grills to charge up the tabletop cookware category. Sears, which is credited by some manufacturers with developing the market for tabletop grills, cross merchandises grills and related cookware like warming trays, buffet range and broiler/rotisseries in vignettes; catalogers present a similar image by grouping these products together on a page.

Discounters, however, are unable to tie together the different types of tabletop cook-

(Continued on page 106)

Ceramic Tabletop Grill Shipments

Year	Units
1987	400,000
1988	750,000
1989	1,500,000
1990	2,600,000

Source: Maverick Industries, Inc.

Natural Materials Preferred For Tabletop Electric Grills

Nationwide DSN Report

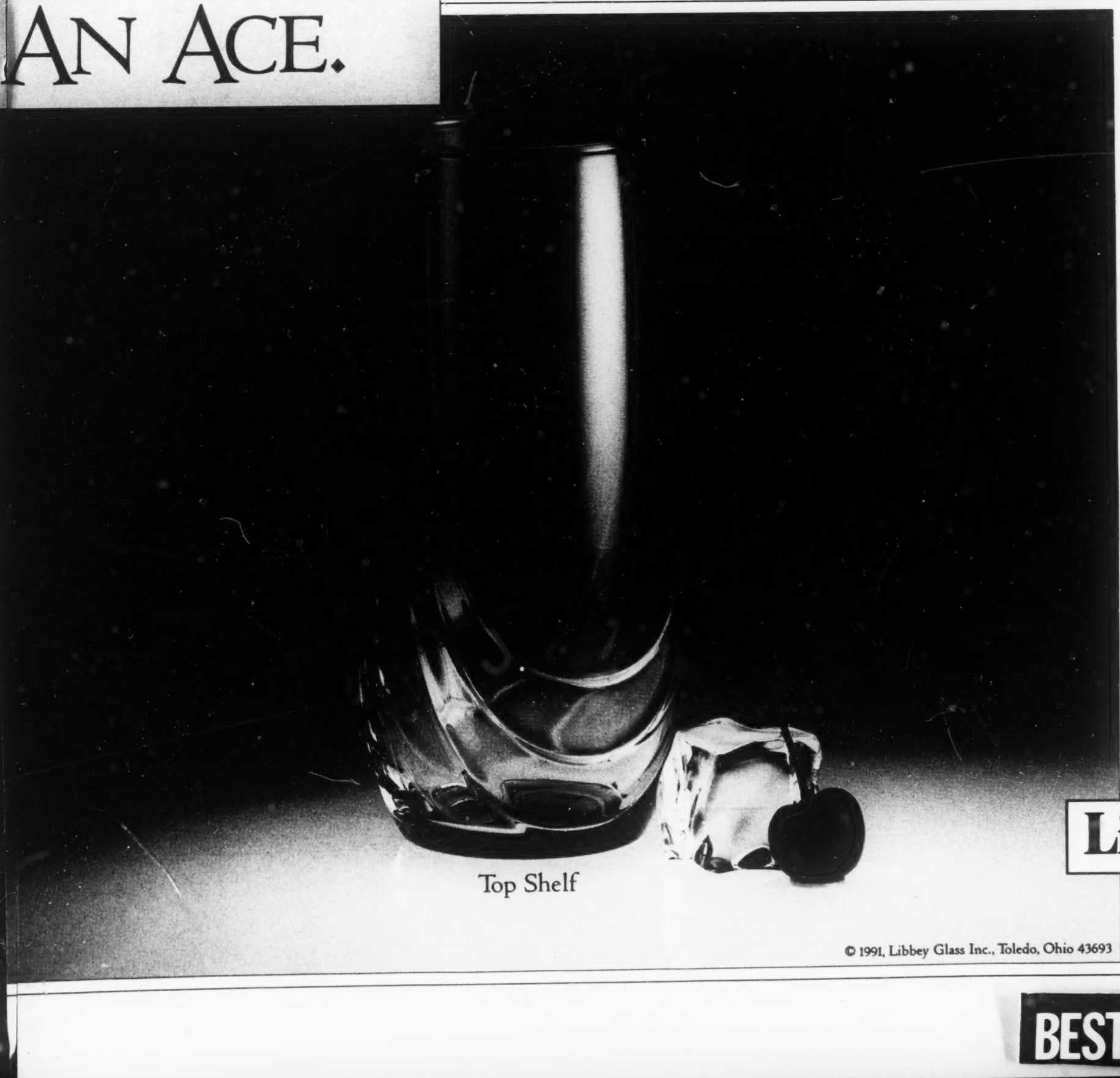
Ceramics has become the preferred material for tabletop electric grills because this substance is a natural insulator. Unlike metal, it retains heat without become hot so that the outside of the grill won't burn anyone touching it.

But the ceramic shells have to be formed from special clays and then fired in giant kilns for eight hours. Pieces that have flaws such as air bubbles or cracks have to be disgarded.

Ceramics aren't the only natural material that have long been used as cookware. Stones have also been used for cooking and the interest in tabletop grilling has resulted in the development of a related top of table cooking product: hot stones.

These are large flat soapstones that are first heated, after which foods can be fried or dry cooked on top while the stones are kept hot over alcohol burners.

AN ACE.



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Electric Grills Sizzle in Small Appliance Arena

(Continued from page 105)
ware because of a lack of display space, with promotions the only vehicle for cross merchandising. Membership warehouses eschew cross merchandising, relying on traditional bulk displays and sharp prices to sell their selective tabletop cookware assortment.

Despite their growing popularity, tabletop grills haven't impacted sales of traditional outdoor grills. One Midwest discount buyer noted that outdoor grills involved more than just cooking, it was also a form of family entertainment and fun. Tabletop grills get their greatest use when its too cold to cook outdoors, he added.

A Sears' cold weather Thanksgiving promotion in 1988 that featured a Contempra unit was credited by vendors as the spark that ignited the tabletop grill market. Sears' national exposure, supported by manufacturer promotions, resulted in the product becoming a mass market item, rather than just a modest seller in conventional department stores in the Southeast and West Coast.

Many states banned the use of outdoor grills indoors or on apartment house patios, boosting the consumer demand sparked by Sears' national promotion. Tabletop grills became the safe, legal cooking alternative.

The interest in tabletop grilling also reflects a number of other factors, manufacturers said, including offering an inexpensive version of the popular Jenn-Air grill found on gas and electric ranges.

Doug Frazier, Contempra Industries vice president of marketing, noted that indoor electric grilling ties into today's lifestyle as a quick and easy way to cook. "Many families have two breadwinners and either one can plug in the grill and prepare a meal. There's no need to fire up an outside grill."

He said that over 5 million tabletop grills will be sold this year, with ceramic models accounting for over 4 million units.

Edward H. Mackin, president of Maverick Industries, said that consumers recognize that "grilling is a convenient and healthful way to cook as fats drain away during cooking," he said. "Consumers have accepted the ceramic grills as safe and perceive it as offering more value than metal tabletop grills."

Lew Mendelson, executive vice president of Dazey Corp., added that grills are an adjunct to microwave cooking. "The microwave has become the center of the kitchen but it can't broil or fry," he said. "Consumers are now buying smokeless grills as the specialty cookware for these types of cooking."

***Tabletop ceramic electric grills developed** into one of the hottest products in the small appliance arena this past holiday season as more goods came on the market from a greater number of manufacturers.* (DSN photo)

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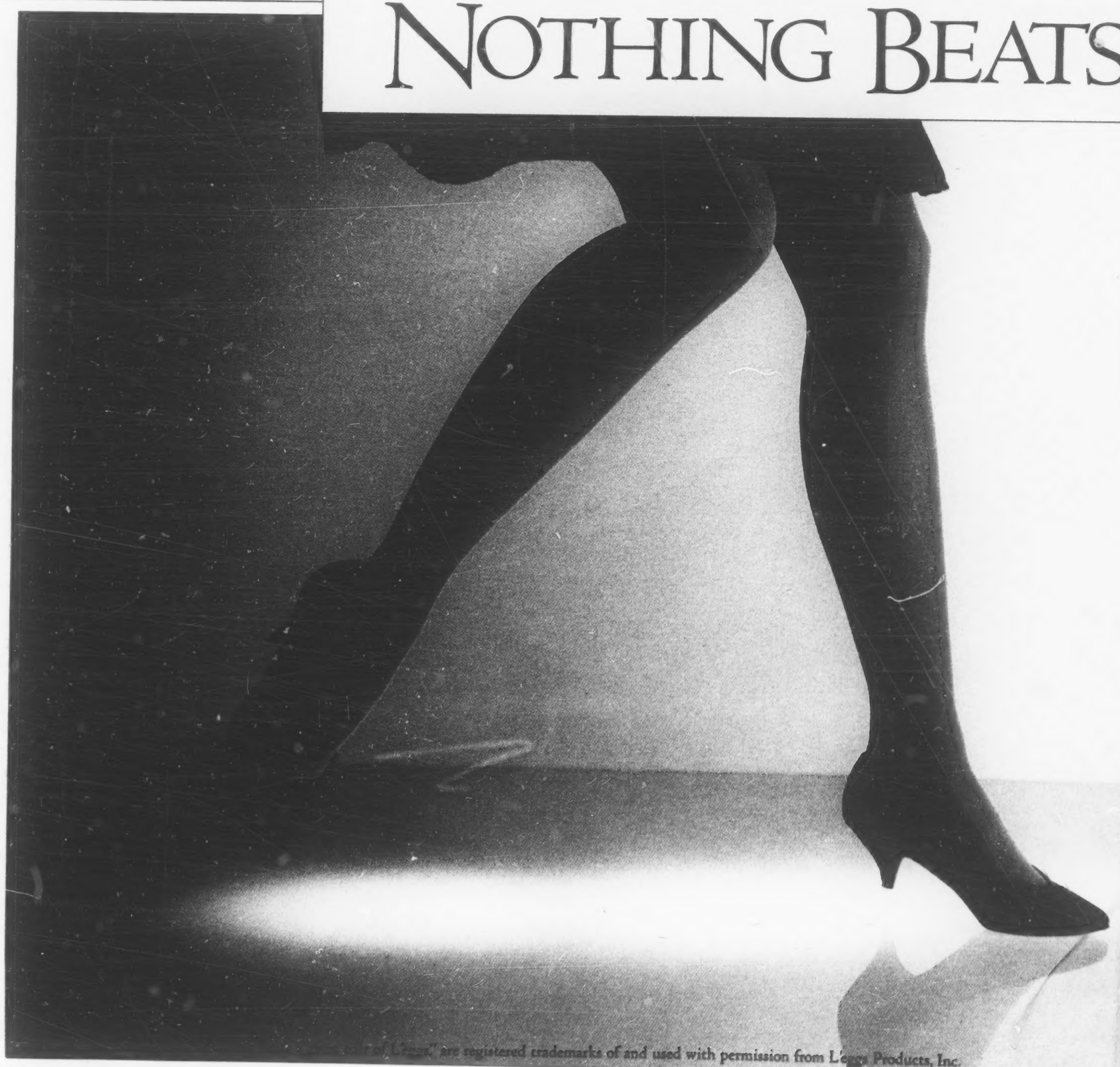

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HARD LINES

Automotives • Health & Beauty Aids • Hardware • Toys • Stationery • Sporting Goods • DIY

New Hair Care Makes Waves

Two-In-Ones Add Volume to Shampoo Sales

By Richard C. Halverson
Nationwide DSN Report

A wave of new, two-in-one shampoo and conditioner preparations is breaking over the health and beauty aids market, and planogrammers who fail to make room for them will be left foaming at the mouth.

Already contending with as many as 16 sku's for a single brand of shampoo and its companion conditioner, planogrammers now must figure out how to squeeze in yet more sku's of the same brand, offering a combination shampoo and conditioner.

Retailers that fail to make room for the new hair care products will lose sales to competitors that do, warned Boston Distributors, a discount trade supplier.

Procter & Gamble has seen its Pert Plus two-in-one shampoo and conditioner edge out its Head and Shoulders brand as the top-selling shampoo in the country.

After five years on the market, Pert Plus accounts for an 8% case share of shampoo sales, said Jim O'Connell, a P&G spokesman, while Head and Shoulders has declined to a 6.5% to 7% case share.

By including the flood of two-in-one formulations starting to ship, they could capture 20% to 25% of the shampoo and conditioner market in 1991, O'Connell predicted.

When P&G introduced Pert Plus five years ago, it dropped Pert, which already had a hint of conditioner, said O'Connell. But most are adding to sku proliferation with their new two-in-ones.

As an example of the sku clutter in the category, the Kmart in West Long Branch, N.J., carries six sku's of Pert Plus: Oily hair, Normal, Dry or Damaged, Extra Body (for fine hair) plus two dandruff control formulations, Normal and Extra Body. At $3.78 for a 15 ounce bottle (11 ounce for dandruff control), Pert Plus occupies the second highest price point for that Kmart.

Hair Care Sales[1]

Category	1986	1987	% Chg.	1988	% Chg.	1989	% Chg.	Discount Market Share
Unit Sales[2]								
Hair Care[3]	1,532	1,575	2.8%	1,641	4.2%	1,698	3.5%	27.2%
Shampoo	566	567	0.1	582	2.6	615	5.6	25.2
Conditioner	308	314	1.9	339	8.0	357	5.3	25.8
Dollar Sales[4]								
Hair Care	$3,690	$3,805	3.1%	$4,018	5.6%	$4,227	5.2%	21.0%
Shampoo	1,256	1,287	2.4	1,364	6.0	1,475	8.2	21.5
Conditioner	676	692	2.2	765	10.7	831	8.7	22.2

[1]Food, drug and mass market outlets.
[2]In millions of units.
[3]Includes styling, hair coloring, ethnic, men's hair preparations, home wave and mousse, as well as shampoo and conditioners.
[4]In millions of dollars.
Source: A.C. Nielsen

Head & Shoulders, now the No. 2 brand in the nation, occupies the highest price point at Kmart, $3.88 for 15 ounces and $3.37 for 11 ounces.

Spurred by the success of Pert Plus, other major vendors have jumped into the two-in-one fray.

Revlon, for instance, started shipping its Flex & Go Shampoo/Conditioner in One several months ago, said Alida Curcio, vice president, marketing, and Flex & Go product manager.

Two-in-one products represent "the most dramatic change in hair care" for 1991, Curcio said, and reflect "changes in lifestyle."

"Consumers are more active," she explained, "using the gym for workouts more, and also shampooing their hair more frequently.

Price Point Percentage Breakdown[1]

Price Category	1988	1989	1990
Premium, $2 or more	38.0%	39.3%	39.3%
Mid, $1.50-$1.99	10.4	10.7	10.5
Value, $1.00-$1.49	22.3	19.9	19.2
Budget, less than $1.00	27.0	28.3	30.8

[1]In units.
Source: Boston Distributors.

"They like the convenience and timesaving of two-in-ones," she said. Revlon is promoting Flex & Go from the convenience angle.

Kmart is stocking two to three sku's of Flex & Go, plus six of the conventional Flex shampoo and Flex conditioner, for a total of eight. Kmart prices Flex & Go at $2.97 for an odd-sized 14.8 ounce bottle. It charges $2.17 for a 15 ounce bottle of conventional Flex shampoo or conditioner.

Two-in-ones are "a hot trend," said Carla Ferrero, an H&BA spokeswoman for Kmart. "All the vendors are jumping on it."

Helene Curtis is shipping its Suave Shampoo/Conditioner in One this month. Kmart already carries 11 of more than 16 sku's of Suave shampoo and conditioner, such as Golden Wheat and Honey, Strawberry Essence, Full Body and Extra Gentle. Kmart prices each at $1.68 for 24 ounces. Conventional Suave also comes in a 16-ounce size.

Helene Curtis is keeping the price constant for its two-in-one, but cutting bottle sizes to 12 ounces and 18 ounces from 18 ounces and 24 ounces.

Chesebrough-Ponds joined the two-in-one fray last month when it began shipping its new Rave All-In-One Shampoo with Conditioner, offering six more sku's in the category.

Last year, P&G began shipping its premium priced Vidal Sassoon Ultra Care, two-in-one shampoo and conditioner in a 9-ounce size. Kmart carries it at $3.58, the same price as an 11-ounce size of conventional Vidal Sassoon. Gillette will offer its White Rain Plus two-in-one in an 11-ounce size, down from 15 ounces for conventional White Rain shampoo.

Alberto is keeping the size of its VO5 two-in-one product constant at 15 ounces but is raising the price, compared to conventional VO5.

Clairol is "actively pursuing" a two-in-one version of its Condition by Clairol hair line, which it recently reformulated with new fragrances, bottles and graphics.

(Continued on page 118)

MARKETWATCH

Sports Authority Up to 19 Stores

FORT LAUDERDALE, Fla. — Sports Authority, the sporting goods specialty chain that Kmart acquired last year, will close its fiscal year with 19 stores in operation, up from eight at the beginning of 1990. In addition, it plans to add 40 more in 1991. Stores opened last year included two in Pennsylvania, Philadelphia and Exton, and one in Southern New Jersey, Deptford Township and two of Kmart's former Sports Giant units in Michigan were closed and converted to the Sports Authority format. Sports Authority also operates units in Maryland and Virginia.

Tyler Purchases Forest City Chain

DALLAS — Tyler Corp., a producer of cast iron sewer and water pipes, has acquired the Forest City Auto Parts chain for $26 million to $30 million. Based in Cleveland, Forest City generated sales of $63 million in 1989 from 51 stores in Ohio, Illinois, Pennsylvania and New York. Store sizes range up to 10,000 square feet, and each store manager buys and merchandises his store independently.

Auto Giant Bows Third Warehouse

LAS VEGAS — Auto Giant has opened its third automotive warehouse unit, following on the heels of its No. 2 in Phoenix, Ariz. The chain opened its first unit in San Bernardino, Calif., back in February. The Las Vegas unit is 75,000-square-feet and features 20 service bays.

STP Opens Four New Quick Lubes

DANBURY, Conn.—STP, a division of First Brands, has opened four of its prototype STP quick lube centers, two in Charlotte, N.C. and one each in Atlanta, Ga. and Orlando, Fla. Last year, STP opened four converted units in Atlanta but closed them all in favor of its prototype that offers car wash, auto detailing and radiator service, as well as quick lube.

Trak Auto Reports Increase in Sales

LANDOVER, Md. — Trak Auto reported that third quarter sales rose 3.9% to $75.8 million for the three months ended Oct. 31, 1990, from $72.9 million a year earlier. Same store sales, however, fell 3.3%. For the nine months, sales rose 8.9% to $219.6 million from $201.7 million. On a comparable store basis, the nine-month gain was 2.4%. Trak operates 331 stores, compared to 305 a year ago.

Exide Wins Kmart Vendor Award

TROY, Mich. — On the strength of its battery recycling program, Exide has won a vendor of the year award from Kmart for product and marketing innovation. Exide launched a program last year to pay Kmart $2.50 for every junk battery the retailers bought for $2 each.

Two-in-Ones Clean Up

(Continued from page 117)

Playtex, which also has reformulated its Jhirmak line, is "looking into" two-in-ones.

For its Style Plus two-in-one, Dow also is raising the price, said John Martin, senior vice president, merchandising, Boston Distributors, Maple Heights, Ohio.

With all the new products, reformulations of conventional shampoos, as well as two-in-ones, coming on stream, discounters that don't have a new hair care planogram on the calendar "are going to miss out on a lot of opportunities," he said.

Two-in-one represents the best prospects for growth in hair care, Martin said, followed by gel-type hair style preparations, spritzes and finally mist conditioners, like Perma Soft Mist Conditioner.

"Their competitors who are undergoing planogramming now are going to garner sales at their expense. Time is of the essence," he warned.

Shampoo Market Share by Type of Outlet

	Mass Merchandisers			Food	Drug Store
	1987	1988	1989	1989	1989
Shampoo	21.3%[1]	20.9%	22.2%	49.5%	27.9%
Total H&BA	17.5%	17.6%	18.3%	43.2%	38.5%

[1]Dollar basis for year ended December 31. Source: A.C. Nielsen Company.

Many discounters are reworking their hair care planograms, "but some aren't," he said.

Shelf space for new two-in-ones will come at the expense of slower moving brands that lack TV support. Some lines will be eliminated entirely, he predicted, while space for line extensions of other slow movers or ones that haven't joined the move toward reformulation, will be cut back.

By the end of 1991, two-in-ones, including Pert Plus and Vidal Sassoon, could capture 15% to 20% of the market, Martin predicted.

Vendors either are shifting to a higher price for two-in-one formulations, compared to conventional shampoos and conditioners, or cutting the size, Martin said.

Margins for two-in-ones fall in the same 20% to 25% range as those for separate shampoos and conditioners.

Where vendors on the lower end, such as Helene Curtis, cut the size of Suave two-in-one but maintain the price, penny profit, or the difference between acquisition cost and retail price, remains the same for two-in-ones as for separate products, Martin said.

On the premium end, however, when price goes up and size remains constant, retailers will make a higher penny profit on two-in-ones, he said.

Retail market share has drifted over the past two years toward both the premium, more than $2, and the budget, less than $1, ends of the business at the expense of products priced in between.

Premium products account for the largest share, 39.3%, Boston Distributors calculated, with budget products taking the next largest, 30.8%.

As a mature category, shampoo is growing at a rate that's a little better than the population increase. Retail dollar value grew 2% in 1990 at $1.44 billion, Boston Distributor estimates.

With only about 35% of men and 75% of women using conditioners, that category had more room to grow last year: 5% to $793 million, for a total of $2.23 billion for the two lines.

Shampoo sales will increase by 3% in 1991 to $1.47 billion, with conditioners increasing by 2% to $809 million.

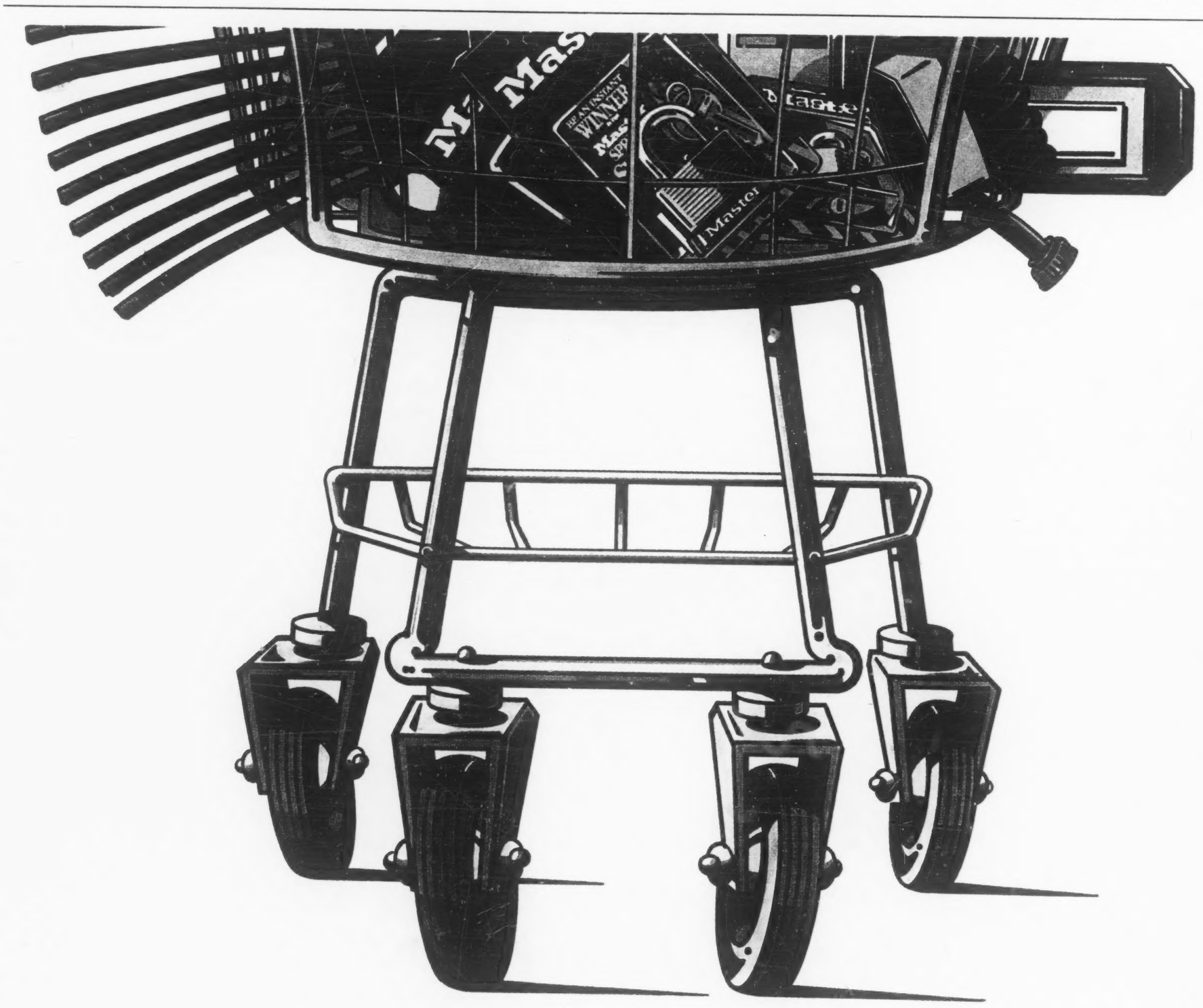
Emphasizing the relative flatness of the market, the shampoo and conditioner market totaled $2.1 billion in 1988, concluded a 1989 market study by Packaged Facts, which is based New York.

With expected growth of 3.6% a year, shampoo and conditioners will represent a $2.5 billion market by 1993, the market study concluded.

An A.C. Nielsen study shows that mass merchants accounted for 22.2% of the shampoo market last year, and 21.5% of conditioner sales. Supermarkets took the lion's share of shampoos, 49%, and conditioners, 43%. Drug chains accounted for the balance, 27.9% of shampoos and 35.4% of conditioners.

Including styling gels, hair coloring, home wave and mousse, the total hair care market came to $4.23 billion in 1989, Nielsen estimated. Mass merchants took a 21% share of the total pie.

(Continued on page 121)



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Growing Adult, Girls' Categories Add Luster to Board Game Sales

Nationwide DSN Report

Driven by strength in the new adult and girl categories, board games appear to have at least held their own in 1990 and perhaps even recaptured a bit of the ground lost in 1989.

Unit sales of board games fell 7% in 1989, with dollar volume shrinking 13.3%, estimates the NPD Group in its Toy Market Index. The average price of a board game slipped to $9 in 1989 from $9.67, 1988, the TMI found, suggesting price-cutting to clear unsold stocks.

Although no sales figures are available yet for 1990, toy retailers and board game makers alike believe that the Nintendo juggernaut lost some momentum last year. They blame Nintendo and other video games for siphoning off dollars that otherwise would be spent on board games and other toys.

Board game makers developed an entirely new category, girls' games, such as Mall Madness by Milton Bradley, and Girl Talk by Western Publishing, in response to Nintendo inroads.

"Boys play Nintendo," a Parker Brothers spokesman said. "Girls play board games," such as the vendor's new Careers for Girls.

Another new category, adult games, such as Scattergories, also Milton Bradley, is the fastest growing of all.

Although adult games lack a blockbuster hit such as Trivial Pursuit, which established the category, Milton Bradley will sell more than 1 million, and possibly 2 million, units of Scattergories. That game was the top selling board game in both dollars (see accompanying chart) and units in October, reports the Toy Retail Sales Tracking Service of the NPD Group. November figures were unavailable at presstime.

Indicating the importance of adult games, NPD will start tracking them as a separate category for the first time in

(Continued on page 123)

Top 10 Board Games

(Based on Dollar Sales)

Rank	Game Name	Manufacturer	Avg. Retail
1	Scattergories	Milton Bradley	$20.15
2	Shark Attack!	Milton Bradley	13.17
3	Monopoly Junior	Parker Bros.	9.15
4	Monopoly	Parker Bros.	9.68
5	Guess Who	Milton Bradley	13.27
6	Operation	Milton Bradley	10.45
7	Trouble	Milton Bradley	9.51
8	Scattergories Junior	Milton Bradley	11.48
9	Perfection	Milton Bradley	14.78
10	Candyland	Milton Bradley	5.54

Source: NPD Group, Toy Retail Sales Tracking Service, October 1990.

New Hair Care Making Waves

(Continued from page 118)

Nielsen, in its 1990 review of mass merchandiser trends, determined that retailers devoted an average of 58.2 linear feet to displays of creme rinses and conditioners and 82.3 linear feet to shampoos, for a total of 130.5 linear feet.

Regionally, however, the averages ranged from a low of 108.5 linear feet in Eastern stores to a high of 168 feet in the Pacific region.

Shampoos and conditioners are a display-driven commodity, said O'Connell of P&G. "Consumers are fickle and not brand loyal," he said. "They will buy the products that catch their eyes."

Deep discount drug chains have been successful with mass displays of hair care products, O'Connell said.

Phar-Mor, Youngstown, Ohio, has moved hair care to center aisle, front, right where customers walk in.

Palletized displays of shampoo and conditioners "are lined up like dominoes," O'Connell said.

P&G provides palletized displays of about 300 pieces that can be slapped into aisles and set up with minimal effort.

Revlon also supplies prepackaged, shrink-wrapped pallet displays for instant floor setup, said Curcio.

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Prez Sees Promise in Turmoil

(Continued from page 1)
deal that saw the raider, David Batchelder, gain two of eight seats on the PNS board.

A steady slide in profits, from a $47.3 million net in 1987 to $30.9 million in 1989, prompted that takeover bid last year. Sales, though, had risen from $361.7 million in 1987 to $475.2 million in 1989.

The worst is behind PNS, Williams said. The damage to employee morale has been repaired and the costs of fighting the takeover have been paid.

"Southeast sees that the concept is sound and that PNS has the ability to become a highly profitable company," he said.

"It's a concept that's totally driven by value," he said. PNS "has a big opportunity to take advantage of the turmoil in retailing today," Williams said.

The problem with PNS was "that the central office became unnecessarily sophisticated and focused on itself," he said. "What I'm going to do is refocus the company back on the stores, back to the business of buying deals and try to eliminate some central office expense."

Some headquarters personnel cuts are in store, "but not abruptly," Williams said.

Pic 'N' Save did make two other changes in its senior management lineup. Allan Pennington, previously vp, business development for the Sears Specialty Merchandising team looking into specialty retailing, was named to the newly-created post of senior vp, administration. Controller John F. Hoffner was named cfo, succeeding William F. Jacobs.

Williams noted that since a closeout chain doesn't re-order the same merchandise, "you don't need a lot of the same control systems and reorder systems that you need in other businesses.

"We have POS in 23 stores [out of 190]. "The big question is, is it any use to us at all?" Williams said. "This is not a complicated business.

"I get a preliminary report in the morning and a final in the afternoon," Williams said. "Both are thick and hard to read. Those will be reduced to one easy-to-read report on one page. I'm a minimalist."

Having Batchelder sit on the PNS board "is not an issue," Williams said. Batchelder recognized that PNS is a proven merchant with a track record.

Now that he no longer is trying to make money by buying and selling the company, Batchelder is devoting his intelligence and financial ability to helping the company as a stockholder, Williams said.

In addition to a management shakeup, the takeover bid forced PNS into a restructuring where it borrowed $44 million to buy back company stock, adding to its exceptionally low debt load and increasing interest expense.

Williams brings to PNS three decades of retailing experience, most recently as a retailing consultant and before that as ceo until 1989 for the retail operations of Lion-Nathan, a diversified manufacturer and retailer in New Zealand.

A native of Canada, Williams gained experience in U.S. discounting as president of Caldor from 1984-87 and chairman and ceo of Gold Circle from 1983-84.

Williams also served in various exec posts at J. Brannam division, a closeout chain that Woolworth operated in the early '50s, Fedmart and JCPenney. Closeout retailing differs from discounting in that it's designed for the merchandiser who likes the flexibility of never seeing the same deal twice.

PNS store managers, for example, get to select as much as 50% of the merchandise from warehouse inventory, he said.

In contrast, mass merchants operate from a fixed selection of goods, housed in planograms, appearing and promoted at predetermined seasons. It amounts to "management by manual," he said.

Williams also expects the "satisfaction of making a lot of money" in his new position.

Without revealing details of the equity position he holds in PNS, Williams said, "I have a good arrangement" through a five-year contract.

"If the company does well, obviously, I do well. But the overriding consideration is that it's fun and can be fun for the customers and fun for those involved in the business."

Williams predicts that PNS will stabilize and return to solid profitability in two years. Until then, he has set a modest expansion plan of 10 stores a year.

His first goal is to fix several immediate problems by refocusing attention from corporate headquarters to the stores.

The first fix will be to bring up to standard some stores in Southern California, its own backyard and largest market. Asked why they are below par, Williams candidly admitted, "I don't know."

PNS also needs "to update lines of merchandise that have gone stale," Williams said.

Williams acknowledged that some stores have suffered from empty shelves. "I can't stand empty shelves," Williams said.

"I want stores brimming with dramatic presentations of inexpensive goods. Mass presentation is the key."

Another priority fix is to reduce central office overhead. "It needs to cost a lot less," Williams said.

In PNS's third quarter of 1990, operating expense as a percent of sales showed a modest improvement, dipping to 41.2% from 41.6% in the same three months of 1989.

Allan Pennington, whom Williams recruited from Sears to take charge last month as the new senior vice president for administration, "also is a minimalist who has a very spartan outlook on life. Between us, we will address central office overhead," Williams said.

Pointing to Wal-Mart's success, Williams said, "the low cost operator in any business is always the guy who will win because he has the lowest prices."

A major problem for Williams is deciding what to do with PNS' new $40 million, 1.1-million-square-foot distribution center in New Orleans, large enough to support 250 stores.

"We've delayed the opening [once set for early 1991] until I decide how to use it most efficiently," he said.

PNS began building the DC in 1989 to support a major expansion drive into the east and southeast, now on hold.

Indeed, PNS retrenched in the east last year by exercising a put option to return the 14-unit Job Lot Pushcart stores in metro New York, acquired in 1989, to its previous owner, Zilber Ltd.

"I'm not sure it was a mistake to build" the New Orleans DC, Williams said. Options would be to sublet excess capacity, switch to flow-through distribution from warehousing or to dump it.

As Williams left to inspect another PNS property in New York, he tossed out a pitch to store managers "who like to merchandise and are sick of bureaucracy."

"Pic 'N' Save is a haven for merchandisers," Williams said. "We're hiring."

Acquisition Of Office Club Widens Gap

(Continued from page 1)
weeks before the Dec. 20 announcement.

Office Depot was attracted to Office Club's position as the dominant office supplies retailer in the West, said Fuente. The chain's stronghold on California, for example, was particularly appealing given the state's demographics.

California is the largest retail market in the United States with 1990 sales estimated at $225.9 billion, according to *Editor & Publisher* Magazine's Market Survey. The population in the state also is the nation's largest, at an estimated $29.3 million. Per capita income is estimated at $17,968 annually, higher than all other states but Connecticut ($20,213) and New Jersey ($20,172).

Fuente also said the merger of the chains provides for "some important cross-learning." He made particular mention of Office Club's direct marketing program and its business with "larger" companies.

For Office Club, the merger is "strategic," he said. "The combination of the two companies creates a powerhouse with a strong balance sheet, of over $900 million of sales in 1990 and permits us to gain important economies of scale."

So far reception of the merger has met with only a little surprise by retail analysts. The deal represents further evidence of consolidation in the relatively young business sector—i.e., OfficeMax's acquisition of both Office World and Office Square in 1990.

"They [the office supply superstores] are beginning to knock heads in one form or another with mergers and acquisitions. The weaker companies are falling by the wayside," said retail analyst Ed Underwood, Scott & Stringfellow, Richmond, Va. "It will be tougher for the small companies."

One analyst, who asked not to be named, said he found the price somewhat high considering Office Club has only recently begun to turn a profit, $1.6 million pretax on sales of $198.7 million through the first nine months of 1990.

"It's a pretty high price to pay for presence in the marketplace," the analyst said.

Under the terms of the merger agreement, Office Club common shares will be exchanged at a ratio of 1.194 Office Depot shares to one Office Club share. Currently, 7.2 million Office Club common shares are outstanding.

In addition, Office Depot will assume Office Club's outstanding options representing about 675,000 Office Club shares.

Despite the merger, Fuente doesn't anticipate any material change in either chain's 1991 expansion plans, at least for the first half of the year.

Office Depot, in Boca Raton, Fla., is a warehouse office supply superstore with store concentrations in the Southeast, Southwest and Midwest. Office Club, based in the San Francisco area, requires its customers to pay a $10 membership fee for the privilege of shopping in its stores or $50 annually for the ability to use credit.

Harts Eyes Regional Hypermarkets

(Continued from page 2)
Ten side-by-side Big Bear and Harts stores will be converted to the Big Bear Plus format. Three Harts stores are slated to be closed this month in Fairfield and Springfield, Ohio, as will the chain's only Kentucky store in Ashland. These closings and conversions alone will leave Harts with only 16 of its current 29 outlets. In addition, the company reported plans to expand or remodel 20 other stores; whether these stores will be Big Bear or Harts formats was not disclosed.

During the management restructuring, Ron Flowers was named to the newly-created post of director of non-foods merchandising. The appointment of Flowers occurred when Mike Reilly—head of the Harts chain as vice president, general manager—retired. The vp, general manager position no longer exists.

Flowers works under Big Bear executive vice president, Roy Flood; Flood, in turn, reports directly to John Josephson, president.

The buying staffs of Big Bear and Harts have been melded into a single team, divided into food and non-food sectors. Non-food buyers make buying decisions not only for Harts, but for Big Bear and Big Bear Plus stores as well. In the past, the Harts and Big Bear stores operated as two separate divisions of one company; now they are far more interrelated.

Bargain Harold's Plans to Rebuild

(Continued from page 2)
hind us," he said, adding that neighborhood Bargain Harold's provide values that full-liners like Zellers do not.

Muncaster added that no closings are planned. The current fiscal year will be one of retrenching, with no additional units slated until 1992. "Some re-merchandising will be needed," Muncaster said. Wider aisles and shopping carts were among some of the basic improvements Muncaster mentioned. New information systems will be added.

Muncaster said costs will be pared by employing two third-party distributors—one for hard lines, one for soft lines—rather than shipping directly to stores from vendors.

Bargain Harold's main competitor is Bi-Way, a chain of 250 dollar stores. Most other dollar store operators are smaller, regional chains, Muncaster said.

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